THE DETERMINANTS OF CAPITAL STRUCTURE: PLANTATION INDUSTRY

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ABSTRACT

This research investigates the relationship between capital structure and firms' performances. The sample of this study are based on Malaysia plantation companies from year 2010 to 2014 to analyze the most optimum capital structure. This study uses leverage (LEV) as the dependent variable against seven independent variables which are firm size (SIZE), growth (GROWTH), asset structure (ASTRUCT), business risk (RISK), liquidity (LIQUID), tax shield (TAX) and profitability (PROFIT) in determining the firms' financial performances.

The sample of this study comprises 35 listed companies in Bursa Malaysia with 6 companies are excluded due to insufficient of data. In this paper, asset structure, firm size and tax shield found to be in line with the trade-off theory with positive relationship with leverage. Meanwhile, the profitability follows the pecking order theory with negative correlation with leverage. Business risk, growth and liquidity does not influence the capital structure of Malaysia plantation firms.

Keywords: Capital structure, plantation, Malaysia

ABSTRAK

Kajian ini dijalankan untuk mengkaji hubungan antara struktur modal dan persembahan syarikat. Sampel kajian menganalisa syarikat-syarikat perladangan di Malaysia dari tahun 2010 hingga 2014 dalam menentukan struktur modal yang paling optimum. Kajian ini menggunakan "leverage" (LEV) sebagai pembolehubah bersandar terhadap tujuh pembolehubah bebas yang lain iaitu saiz firma (SIZE), pertumbuhan (GROWTH), struktur aset (ASTRUCT), risiko perniagaan (RISK), kecairan (LIQUID), cukai (TAX) dan keuntungan (PROFIT) dalam menentukan prestasi kewangan syarikat-syarikat ini.

Sampel kajian ini terdiri daripada 35 buah syarikat yang tersenarai di Bursa Malaysia, tidak termasuk 6 buah syarikat telah dikecualikan kerana data yang tidak lengkap. Dalam kajian ini, struktur aset, saiz firma dan cukai adalah selaras dengan teori "Trade-Off" berikutan hubungan positif pemboleh ubah tersebut dengan "leverage". Sementara itu, pemboleh ubah keuntungan adalah selari dengan teori "Pecking Order" berdasarkan korelasi negatif yang ditemui dengan "leverage". Risiko perniagaan, pertumbuhan dan kecairan tidak mempengaruhi struktur modal firma perladangan Malaysia.

Katakunci: Struktur modal, perladangan, Malaysia

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Capital structure is a corporate approach for organization in strategizing its operation based on determined proportion of debt and equity to achieve the most optimum financial structure. Most corporate financing acknowledged capital structure as the significant approach in maximizing the firm value along with shareholder wealth (Myers 1977; Bradley et al., 1984; Bus, Muradoglu and Phylaktis, 2009; Abu Bakar, 2010).

Over years, the relationship between firm's values and capital structure has been a debatable issue in the field of corporate finance. As different company practices different financing behavior, factors that would determine the capital structure are also an important concern in the influence of firm's value.

The main theory of Modigliani Miller Proposition I was first proposed by Modigliani and Miller in 1958 are also known as the irrelevance principle as the theory is no longer viable in today's market. Based on the philosophy, more theories aroused to streamline the theory of capital structure in the decision making process including the introduction of trade-off theory and the pecking order theory.

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APPENDICES

Appendix A: Sample Data List of Companies

No.	Company Name
1	ASTRAL ASIA BHD
2	BATU KAWAN BHD
3	BLD PLANTATION BHD
4	BOUSTEAD PLANTATION BHD
5	CEPATWAWASAN GROUP BHD
6	CHIN TECK PLANTATION BHD
7	FAR EAST HOLDINGS BHD
8	FELDA GLOBAL VENTURES HLDG BHD
9	GENTING PLANTATION BERHAD
10	GOLDEN LAND BERHAD
11	GOPENG BHD
12	HARN LEN CORPORATION BHD
13	HAP SENG PLANTATIONS HOLDINGS
14	IJM PLANTATIONS BHD
15	IOI CORPORATION BHD
16	KUALA LUMPUR KEPONG BHD
17	KLUANG RUBBER CO (M) BHD
18	KIM LOONG RESOURCES BHD
19	KRETAM HOLDINGS BHD
20	KWANTAS CORPORATION BHD
21	MALPAC HOLDINGS BHD
22	MHC PLANTATION BHD
23	NPC RESOURCES BHD
24	NEGRI SEMBILAN OIL PALMS BHD
25	PINEHILL PACIFIC BERHAD
26	RIMBUNAN SAWIT BHD
27	RIVERVIEW RUBBER ESTATES BHD
28	SUNGEI BAGAN RUBBER CO (M) BHD
29	SARAWAK OIL PALMS BHD
30	SARAWAK PLANTATION BHD
31	TDM BHD
32	TH PLANTATION BHD
33	TSH RESOURCES BHD
34	UNITED MALACCA BHD
35	UNITED PLANTATION BHD

Appendix B: SPSS Result

Descriptive

	N	Minimum	Maximum	Mean	Std. Deviation
LEV	173	.0029095782	.6666299700	.258284402598	.1704588041168
ASTRUCT	168	.43908802	.98357560	.7688656852	.12667012053
RISK	173	.0035126116	.0754246300	.027487032084	.0142798699089
SIZE	173	12.0679940	16.9870600	13.914310818	1.1119890409
TAX	173	.0000474207	.0477826970	.015539537090	.0099986307313
PROFIT	170	-2.3465674000	2.0141218000	.225224503686	.3747963849171
LIQUID	168	.11423450	0.99787400	0.4967068476	0.11246472827
Valid N (listwise)	168				

Correlations

		LEV	ASTRUCT	RISK	SIZE	TAX	PROFIT	LIQUID
LEV	Pearson Correlation	1	0.142	.215**	.456**	.507**	-.465**	-.546**
	Sig. (2-tailed)		0.067	0.005	0	0	0	0
	N	173	168	173	173	173	170	168
ASTRUCT	Pearson Correlation	0.142	1	-0.069	-.314**	0.101	0.053	-.267**
	Sig. (2-tailed)	0.067		0.375	0	0.192	0.499	0
	N	168	168	168	168	168	168	168
RISK	Pearson Correlation	.215**	-0.069	1	0.019	.457**	-.204**	-.383**
	Sig. (2-tailed)	0.005	0.375		0.806	0	0.008	0
	N	173	168	173	173	173	170	168
SIZE	Pearson Correlation	.456**	-.314**	0.019	1	.205**	-.190*	-.282**
	Sig. (2-tailed)	0	0	0.806		0.007	0.013	0
	N	173	168	173	173	173	170	168
TAX	Pearson Correlation	.507**	0.101	.457**	.205**	1	-.402**	-.487**
	Sig. (2-tailed)	0	0.192	0	0.007		0	0
	N	173	168	173	173	173	170	168
PROFIT	Pearson Correlation	-.465**	0.053	-.204**	-.190*	-.402**	1	.505**
	Sig. (2-tailed)	0	0.499	0.008	0.013	0		0
	N	170	168	170	170	170	170	168
LIQUID	Pearson Correlation	-.546**	-.267**	-.383**	-.282**	-.487**	.505**	1
	Sig. (2-tailed)	0	0	0	0	0	0	
	N	168	168	168	168	168	168	168

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	LIQUID, GROWTH, ASTRUCT, RISK, SIZE, PROFIT, TAX	.	Enter

a. All requested variables entered.

b. Dependent Variable: LEV

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710[a]	.504	.482	.1220219846892

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.386	7	.341	22.897	.000[a]
	Residual	2.353	158	.015		
	Total	4.739	165			

a. Predictors: (Constant), LIQUID, GROWTH, ASTRUCT, RISK, SIZE, PROFIT, TAX

b. Dependent Variable: LEV

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.781	.198		-3.951	.000
	ASTRUCT	.287	.093	.214	3.071	.003
	RISK	-.053	.800	-.005	-.067	.947
	SIZE	.057	.010	.367	5.481	.000
	TAX	4.245	1.192	.255	3.563	.000
	GROWTH	-.001	.003	-.025	-.433	.665
	PROFIT	-.104	.032	-.231	-3.280	.001
	LIQUID	-.001	.001	-.144	-1.724	.087

a. Dependent Variable: LEV

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.151319459081	.521721482277	.264385401154	.120264437861 1	166
Residual	-.216545477509 5	.279061824083 3	.000000000000 0	.119405589182 0	166
Std. Predicted Value	-3.457	2.140	.000	1.000	166
Std. Residual	-1.775	2.287	.000	.979	166

a. Dependent Variable: LEV